

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name <b>City of Crystal Falls</b>	County <b>Iron</b>
Audit Date <b>9/30/06</b>	Opinion Date <b>12/21/06</b>	Date Accountant Report Submitted to State: <b>2/13/07</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

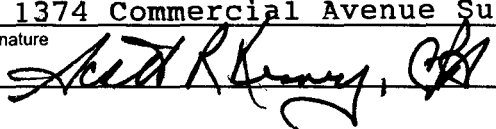
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☒ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

**We have enclosed the following:**

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>		
Reports on individual federal financial assistance programs (program audits).			<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).			<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name) <b>Scott R. Kenney, CPA</b>			
Street Address <b>1374 Commercial Avenue Suite 1</b>	City <b>Crystal Falls</b>	State <b>MI</b>	ZIP <b>49920</b>
Accountant Signature 		Date <b>12/21/06</b>	

**CITY OF CRYSTAL FALLS**  
AUDITED FINANCIAL STATEMENTS  
CRYSTAL FALLS, MICHIGAN

Fiscal Year Ended September 30, 2006

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# SCOTT R. KENNEY

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## INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and City Council  
City of Crystal Falls  
401 Superior Avenue  
Crystal Falls, Michigan 49920

I have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Crystal Falls, Michigan, as of and for the year ended September 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's elected officials and management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Crystal Falls, Michigan, as of September 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note A, the City has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments, as of September 30, 2004.

The Management's Discussion and Analysis and Budgetary Comparison Schedules as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

Member  
American Institute of Certified Public Accountants  
Michigan Association of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Crystal Falls, Michigan's basic financial statements. The introductory section, statistical tables and additional information section are presented for additional analysis and are not a required part of the basic financial statements. The additional information section has been subjected to auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I express no opinion on them.

  
Certified Public Accountant

December 21, 2006

CITY OF CRYSTAL FALLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
September 30, 2006

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements.

The City as a Whole

The City's combined net assets decreased 1.6% from a year ago - decreasing from \$6.240 million to \$6.138 million. As we look at the governmental activities separately from the business-type activities, we can see that the governmental activities experienced an increase of approximately \$6,000 during the year (1.0% increase). This is primarily attributed to increases in capital spending and a substantial increase in the underfunded status in the employee pension plan offset by significantly larger transfers from the utility funds than in prior years. The business-type activities experienced a decrease in net assets of \$108 thousand (1.9% decrease). The decrease is attributed to the large transfers to the general fund and the spending necessary to complete the electric system automation project. In a condensed format, the table below shows a comparison of the net assets (in thousands of dollars) as of the current date to the prior year:

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Current Assets	\$ 859	\$ 743	\$ 591	\$ 763	\$ 1,450	\$ 1,506
Noncurrent Assets	<u>655</u>	<u>463</u>	<u>9,382</u>	<u>9,345</u>	<u>10,037</u>	<u>9,808</u>
Total Assets	\$ 1,514	\$ 1,206	\$ 9,973	\$10,108	\$ 11,487	\$ 11,314
Long-Term Debt Outstanding	\$ 592	\$ 519	\$ 4,192	\$ 4,271	\$ 4,784	\$ 4,790
Other Liabilities	<u>301</u>	<u>73</u>	<u>264</u>	<u>211</u>	<u>565</u>	<u>284</u>
Total Liabilities	<u>\$ 893</u>	<u>\$ 591</u>	<u>\$ 4,456</u>	<u>\$ 4,482</u>	<u>\$ 5,349</u>	<u>\$ 5,074</u>
Net Assets						
Invested in Capital Assets—Net of Debt	\$ 630	\$ 429	\$ 4,559	\$ 4,584	\$ 5,189	\$ 5,013
Restricted	47	83	391	91	438	174
Unrestricted	<u>(56)</u>	<u>103</u>	<u>567</u>	<u>950</u>	<u>511</u>	<u>1,053</u>
Total Net Assets	\$ 621	\$ 615	\$ 5,517	\$ 5,625	\$ 6,138	\$ 6,240

CITY OF CRYSTAL FALLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
September 30, 2006

Unrestricted net asset—the part of net assets that can be used to finance day to day operations, decreased by \$159,000 for the governmental activities. This decrease can be attributed primarily to the aforementioned transfers from the utility funds, increase in pension underfunding and revenues that continue to lag inflationary expense increases. The current level of unrestricted net assets for our governmental activities stands at a deficit of \$56,000.

The following table shows the changes of the net assets (in thousands of dollars) as of the current date to the prior year:

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Program Revenues						
Charges for Services	\$ 159	\$ 160	\$ 2,517	\$ 2,488	\$ 2,676	\$2,648
Operating Grants and Contributions	321	0	0	0	321	0
Capital Grants and Contributions	16	0	0	0	16	0
General Revenues						
Property Taxes	\$ 334	\$ 302	\$ 0	\$ 0	\$ 334	\$ 302
State-Shared Revenues	224	415	0	0	224	415
Unrestricted Investment Earnings	46	35	35	28	81	63
Fines and forfeitures	1	2	0	0	1	2
Other	48	87	0	0	48	87
Transfers	<u>580</u>	<u>374</u>	<u>(580)</u>	<u>(374)</u>	<u>0</u>	<u>0</u>
Total Revenues	\$ 1,729	\$ 1,375	\$ 1,972	\$ 2,142	\$ 3,701	\$3,517
Program Expenses						
Legislative	\$ 11	\$ 11	\$ 0	\$ 0	\$ 11	\$ 11
General Government	639	903	0	0	639	903
Public Safety	428	335	0	0	428	335
Public Works	447	353	0	0	447	353
Recreation & Culture	157	135	0	0	157	135
Community betterment	41	34	0	0	41	34
Public Utilities	<u>0</u>	<u>0</u>	<u>2,079</u>	<u>2,142</u>	<u>2,079</u>	<u>2,142</u>
Total Expenses	<u>\$ 1,723</u>	<u>\$ 1,771</u>	<u>\$ 2,079</u>	<u>\$ 2,142</u>	<u>\$ 3,802</u>	<u>\$3,913</u>
Change in Net Assets	\$ 6	\$ (396)	\$ (107)	\$ 0	\$ (101)	\$(396)

The City's net assets increased by \$101,000 during the year and remain at a mediocre level. This can be attributed to conservative yet necessary planning and spending on capital equipment and projects and implementation of cost savings measures particularly on health care. Housing and business construction within the City remained at a slow pace this past year.



CITY OF CRYSTAL FALLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
September 30, 2006

Governmental Activities

The City's total governmental revenue increased by approximately \$254,000 due to a further decrease in State Shared Revenues and larger transfers from the business type funds in comparison to the prior year.

Expenditures decreased by slightly more than \$48,000 during the year. This decrease is comprised of the recording of the original underfunded pension plan status in the prior fiscal year offset somewhat by the installation of the irrigation system at the golf course.

Business-Type Activities

The City's business-type activities consist of the Television, Electric, Water and Sewer Funds. The City provides cable television services to residents through its cable television system. The City also provides electric service to residents by generating hydroelectric power at its own facilities and supplements its customers needs with power purchased from WE Energies. The City provides water and sewer services to residents, which come from the City's own systems. The Television Fund saw its revenues increase due to a rate increase implemented to offset rising costs. The Electric Fund saw its revenues remain constant with the prior year and expenditures rise due to increasing costs to purchase power in excess of the power generated. The City completed a project to automate the power plant operations. The cost of the project is expected to have a seven year payback. The Water Fund revenues also remained constant during the year and expenses decreased even though the City has continued its commitment to locate an updated water source for the City. The Sewer Fund revenues remained constant during the year and expenses increased substantially due to a large increase in depreciation.

The City's Funds

Analysis of the City's major funds begins on page 12, following the entity-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as a federal grant/loan. The City's major funds for 2005-2006 include the General Fund, Major Street Fund, Electric Reserve and Contingency Fund and each of the business type funds.

The General Fund pays for most of the City's governmental services. The most significant are general maintenance of city property and buildings, maintaining the City's equipment, police and fire services and general administration. These services are primarily funded from property taxes assessed to the residents of the City and revenues shared with the State of Michigan.

CITY OF CRYSTAL FALLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
September 30, 2006

General Fund Budgetary Highlights

Over the course of the year, the City Council amended the budget to take into account events during the year. The most significant revenue changes was in Transfers from Other Funds which was increased by \$206,000 due to a larger amount actually being transferred. The City Council adopted a modification to the budget that matches amounts expended where the budgeted amount was not adequate to cover the actual expenditures.

Capital Asset and Debt Administration

At the end of the 2006 fiscal year, the City had more than \$12,794,000 invested in a broad range of capital assets, including snow removal equipment, police and fire equipment, land and buildings, community television system, electric system, water and sewer systems. In addition, the City has invested significantly in roads and sidewalks within the City which are not included in the total. These roads are maintained by the City with the costs recorded in the major and local street funds.

Economic Factors and Next Year's Budgets and Rates

The City's budget for 2006-2007 calls for no increase in property tax rates. Because of the impact of Proposal A and an insecure cash position, the City needs to continue to watch its budget very closely. The state-wide tax reform act limits growth in taxable value on any individual property to the lesser of inflation or 5%. Because some properties increase in value by less than the inflationary rate, the mathematical result is that the total taxable value for the City will grow at a rate less than inflation, before considering new property additions.

The City has entered into an agreement to purchase water from Crystal Falls Township beginning in fiscal year 2008-2009. The agreement calls for the City to purchase its water needs from the Township and to maintain the infrastructure of the water system within the City.

Business Type Funds will continue to be scrutinized carefully to be certain that rates and/or fees for services are proportionate to the related expenses.

Contacting the City's Management

This financial report is intended to provide the citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the manager's office.

CITY OF CRYSTAL FALLS  
GOVERNMENT WIDE STATEMENT OF NET ASSETS  
September 30, 2006

	<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS-TYPE ACTIVITIES</u>	<u>TOTAL</u>
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and equivalents	\$ 533,130	\$ 344,217	\$ 877,347
Receivables - net	129,960	247,293	377,253
Prepaid expenses	45,958	0	45,958
Other	0	0	0
Internal balances	<u>150,000</u>	<u>0</u>	<u>150,000</u>
<b>TOTAL CURRENT ASSETS</b>	<b>\$ 859,048</b>	<b>\$ 591,510</b>	<b>\$ 1,450,558</b>
 <b>RESTRICTED ASSETS - Cash and equivalents</b>	 <b>\$ 0</b>	 <b>\$ 408,888</b>	 <b>\$ 408,888</b>
<b>NON-CURRENT ASSETS</b>			
Property and equipment, net of depreciation	\$ 654,782	\$ 8,830,456	\$ 9,485,238
Other	<u>0</u>	<u>142,544</u>	<u>142,544</u>
<b>TOTAL NON-CURRENT ASSETS</b>	<b>\$ 654,782</b>	<b>\$ 8,973,000</b>	<b>\$ 9,627,782</b>
 <b>TOTAL ASSETS</b>	 <b>\$ 1,513,830</b>	 <b>\$ 9,973,398</b>	 <b>\$ 11,487,228</b>
 <b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable	\$ 133,637	\$ 107,846	\$ 241,483
Accrued and other liabilities	15,031	76,678	91,709
Interprogram payables	150,000	0	150,000
Current part of non-current liabilities	<u>2,584</u>	<u>79,000</u>	<u>81,584</u>
<b>TOTAL CURRENT LIABILITIES</b>	<b>\$ 301,252</b>	<b>\$ 263,524</b>	<b>\$ 564,776</b>
 <b>LIABILITIES PAYABLE FROM RESTRICTED ASSETS</b>	 <b>\$ 0</b>	 <b>\$ 292,664</b>	 <b>\$ 292,664</b>
<b>NON-CURRENT LIABILITIES</b>			
Compensated absences	\$ 22,650	\$ 0	\$ 22,650
Notes payable	15,506	0	15,506
Revenue bonds payable	0	3,899,336	3,899,336
Unfunded accrued actuarial pension liability	<u>554,040</u>	<u>0</u>	<u>554,040</u>
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>\$ 592,197</b>	<b>\$ 3,899,336</b>	<b>\$ 4,491,533</b>
 <b>TOTAL LIABILITIES</b>	 <b>\$ 893,449</b>	 <b>\$ 4,455,524</b>	 <b>\$ 5,348,973</b>
 <b>NET ASSETS</b>			
Invested in capital assets, net of related debt	\$ 629,548	\$ 4,559,456	\$ 5,189,004
Restricted for			
Prepaid expenses	45,958	0	45,958
Drug forfeitures	1,580	0	1,580
Bond discount	0	8,550	8,550
Debt service	0	292,664	292,664
Repair and reconstruction	0	90,110	90,110
Unrestricted	<u>(56,704)</u>	<u>567,094</u>	<u>510,390</u>
 <b>TOTAL NET ASSETS</b>	 <b>\$ 620,382</b>	 <b>\$ 5,517,874</b>	 <b>\$ 6,138,256</b>

Notes to Financial Statements are an integral part of this statement.

**CITY OF CRYSTAL FALLS**  
**GOVERNMENT WIDE STATEMENT OF ACTIVITIES**  
Year ended September 30, 2006

FUNCTIONS/PROGRAMS	PROGRAM REVENUES				NET REVENUE (EXPENSE) AND CHANGES IN NET ASSETS		
	<u>EXPENSES</u>	<u>CHARGES FOR SERVICES</u>	<u>OPERATING GRANTS AND CONTRIBUTIONS</u>	<u>CAPITAL GRANTS AND CONTRIBUTIONS</u>	PRIMARY GOVERNMENT		
					<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS-TYPE ACTIVITIES</u>	<u>TOTAL</u>
Governmental Activities							
Legislative	\$ 10,861	\$ 0	\$ 0	\$ 0	\$ (10,861)		\$ (10,861)
General government	639,308	24,551	0	0	(614,757)		
Public safety	428,268	0	0	16,000	(412,268)		(412,268)
Public works	447,149	0	320,621	0	(126,528)		(126,528)
Parks and recreation	157,165	134,299	0	0	(22,866)		(22,866)
Community betterment	<u>40,483</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(40,483)</u>		<u>(40,483)</u>
TOTAL GOVERNMENTAL ACTIVITIES	\$ <u>1,723,234</u>	\$ <u>158,850</u>	\$ <u>320,621</u>	\$ <u>16,000</u>	\$ (1,227,763)		\$ (613,006)
Business-Type Activities							
Television	\$ 208,936	\$ 225,340	\$ 0	\$ 0		\$ 16,404	\$ 16,404
Electric	1,301,994	1,619,046				317,052	317,052
Water	133,514	323,435				189,921	189,921
Sewer	<u>434,130</u>	<u>348,988</u>	<u>0</u>	<u>0</u>		<u>(85,142)</u>	<u>(85,142)</u>
TOTAL BUSINESS-TYPE ACTIVITIES	\$ <u>2,078,574</u>	\$ <u>2,516,809</u>	\$ <u>0</u>	\$ <u>0</u>		\$ 438,235	\$ 438,235
GENERAL REVENUES							
Property taxes					\$ 333,687	\$ 0	\$ 333,687
State shared revenues and grants					224,175	0	224,175
Unrestricted investments earnings					46,252	34,615	80,867
Fines and forfeitures					907	0	907
Other					23,184	0	23,184
SPECIAL ITEM - Sale of property/timber					25,188	0	25,188
TRANSFERS					<u>580,000</u>	<u>(580,000)</u>	<u>0</u>
TOTAL GENERAL REVENUES AND TRANSFERS					\$ <u>1,233,393</u>	\$ <u>(545,385)</u>	\$ <u>688,008</u>
CHANGE IN NET ASSETS					\$ 5,630	\$ (107,150)	\$ (101,520)
Net assets - beginning					<u>614,752</u>	<u>5,625,024</u>	<u>6,239,776</u>
NET ASSETS - ENDING					\$ <u>620,382</u>	\$ <u>5,517,874</u>	\$ <u>6,138,256</u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF CRYSTAL FALLS  
GOVERNMENTAL FUNDS BALANCE SHEET  
COMBINED BALANCE SHEET  
September 30, 2006

	<u>GENERAL</u>	<u>MAJOR STREET</u>	<u>ELECTRIC RESERVE &amp; CONTINGENCY</u>	<u>NON-MAJOR GOVERNMENTAL FUND</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<b>ASSETS</b>					
Cash and equivalents	\$ 169,977	\$ 27,362	\$ 256,755	\$ 79,036	\$ 533,130
Accounts receivable	4,891	0	0	0	4,891
Due from other funds	0	150,000	0	0	150,000
Due from other governmental units	95,039	21,362	0	8,668	125,069
Prepaid expenses	45,958	0	0	0	45,958
Bond discount	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>315,865</u></b>	<b>\$ <u>198,724</u></b>	<b>\$ <u>256,755</u></b>	<b>\$ <u>87,704</u></b>	<b>\$ <u>859,048</u></b>
<b>LIABILITIES</b>					
Accounts payable	\$ 127,856	\$ 5,378	\$ 0	\$ 403	\$ 133,637
Accrued payroll expense	14,737	194	0	100	15,031
Due to other funds	150,000	0	0	0	150,000
Accrued taxes and withholdings	0	0	0	0	0
Other liabilities	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>TOTAL LIABILITIES</b>	<b>\$ 292,593</b>	<b>\$ 5,572</b>	<b>\$ 0</b>	<b>\$ 503</b>	<b>\$ 298,668</b>
<b>FUND BALANCES</b>					
Reserved for					
Prepaid expenses	\$ 45,958	\$ 0	\$ 0	\$ 0	\$ 45,958
Drug forfeitures	1,580	0	0	0	1,580
Debt service	0	0	0	0	0
Unreserved	<u>(24,266)</u>	<u>193,152</u>	<u>256,755</u>	<u>87,201</u>	<u>512,842</u>
<b>TOTAL FUND EQUITY</b>	<b>\$ <u>23,272</u></b>	<b>\$ <u>193,152</u></b>	<b>\$ <u>256,755</u></b>	<b>\$ <u>87,201</u></b>	<b>\$ <u>560,380</u></b>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ <u>315,865</u></b>	<b>\$ <u>198,724</u></b>	<b>\$ <u>256,755</u></b>	<b>\$ <u>87,704</u></b>	<b>\$ <u>859,048</u></b>

The Notes to Financial Statements are an integral part of this statement.

CITY OF CRYSTAL FALLS  
RECONCILIATION OF BALANCE SHEET OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS  
September 30, 2006

Total fund balance - total governmental funds	\$ 560,380
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds net of related depreciation	654,782
Long term liabilities:	
Accumulated employee vacation pay not used in current period	(22,650)
Notes payable on Industrial Park Infrastructure	(18,090)
Unfunded accrued actuarial pension liability not payable in the current period	<u>(554,040)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES \$	<u><u>620,382</u></u>

CITY OF CRYSTAL FALLS  
 ALL GOVERNMENTAL FUND TYPES  
 COMBINED STATEMENT OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCE  
 Year ended September 30, 2006

	<u>GENERAL</u>	<u>MAJOR STREET</u>	<u>ELECTRIC RESERVE &amp; CONTINGENCY</u>	<u>NON-MAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<b>REVENUES</b>					
General property taxes	\$ 332,212	\$ 0	\$ 0	\$ 1,475	\$ 333,687
Federal grants	16,000	0	0	0	16,000
State shared revenues and grants	224,175	255,354	0	65,267	544,796
Charges for services	158,850	0	0	0	158,850
Fines and forfeitures	907	0	0	0	907
Interest and rentals	117,494	722	6,755	3,514	128,485
Sale of property/timber	25,188	0	0	0	25,188
Other	<u>23,184</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>23,184</u>
<b>TOTAL REVENUES</b>	<b>\$ 898,010</b>	<b>\$ 256,076</b>	<b>\$ 6,755</b>	<b>\$ 70,256</b>	<b>\$ 1,231,097</b>
<b>EXPENDITURES</b>					
Legislative	\$ 10,861	\$ 0	\$ 0	\$ 0	\$ 10,861
General government	539,438	6,646	0	5,383	551,467
Public safety	420,398	0	0	0	420,398
Public works	257,868	125,013	0	108,735	491,616
Parks and recreation	148,115	0	0	0	148,115
Community betterment	40,483	0	0	0	40,483
Debt service	0	0	0	2,584	2,584
Capital outlay	<u>258,648</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>258,648</u>
<b>TOTAL EXPENDITURES</b>	<b>\$ 1,675,811</b>	<b>\$ 131,659</b>	<b>\$ 0</b>	<b>\$ 116,702</b>	<b>\$ 1,924,172</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>\$ (777,801)</b>	<b>\$ 124,417</b>	<b>\$ 6,755</b>	<b>\$ (46,446)</b>	<b>\$ (693,075)</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfer from other funds	\$ 635,000	\$ 0	\$ 0	\$ 46,800	\$ 681,800
Transfer to other funds	<u>0</u>	<u>(46,800)</u>	<u>0</u>	<u>(55,000)</u>	<u>(101,800)</u>
<b>EXCESS OF REVENUES AND OTHER FINANCING USES OVER EXPENDITURES</b>	<b>\$ (142,801)</b>	<b>\$ 77,617</b>	<b>\$ 6,755</b>	<b>\$ (54,646)</b>	<b>\$ (113,075)</b>
Fund balance - beginning	<u>166,073</u>	<u>115,535</u>	<u>250,000</u>	<u>141,847</u>	<u>673,455</u>
<b>FUND BALANCE - ENDING</b>	<b>\$ <u>23,272</u></b>	<b>\$ <u>193,152</u></b>	<b>\$ <u>256,755</u></b>	<b>\$ <u>87,201</u></b>	<b>\$ <u>560,380</u></b>

Notes to Financial Statements are an integral part of this statement.

CITY OF CRYSTAL FALLS  
RECONCILIATION OF STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCE  
TO THE STATEMENT OF ACTIVITIES  
Year ended September 30, 2006

Net change in fund balance - total governmental funds	\$ (113,075)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures; in the Statement of Activities these costs are allocated over their estimated useful life and reported as depreciation	191,949
Payments on long term debt; these expenditures are reflected as a reduction of liabilities on government-wide statements and an expenditure in the governmental fund statements	2,584
Decreases in accumulated employee vacation are recorded when earned in the Statement of Activities	9,081
Rental of equipment recorded as income and expenditures in the various governmental funds and eliminated in the Statement of Activities	0
Increase in unfunded accrued actuarial pension liability not requiring the use of current financial resources	<u>(84,909)</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$	<u><u>5,630</u></u>



CITY OF CRYSTAL FALLS  
STATEMENT OF NET ASSETS  
BUSINESS TYPE FUNDS  
September 30, 2006

	<u>TELEVISION UTILITY</u>	<u>ELECTRIC UTILITY</u>	<u>WATER UTILITY</u>	<u>SEWER UTILITY</u>	<u>TOTAL</u>
<b>ASSETS</b>					
Current Assets:					
Cash and equivalents	\$ 23,573	\$ 73,608	\$ 106,087	\$ 140,949	\$ 344,217
Accounts receivable	0	233,041	0	0	233,041
Due from other governmental units	<u>0</u>	<u>0</u>	<u>0</u>	<u>14,252</u>	<u>14,252</u>
TOTAL CURRENT ASSETS	\$ 23,573	\$ 306,649	\$ 106,087	\$ 155,201	\$ 591,510
Restricted Assets	\$ 0	\$ 142,185	\$ 0	\$ 266,703	\$ 408,888
Property, Plant and Equipment:					
Utility plant and equipment	\$ 152,474	\$ 1,796,016	\$ 262,616	\$ 8,588,882	\$ 10,799,988
Construction in progress	0	0	185,765	0	185,765
Less accumulated depreciation	<u>(79,001)</u>	<u>(413,949)</u>	<u>(179,389)</u>	<u>(1,482,958)</u>	<u>(2,155,297)</u>
TOTAL PROPERTY, PLANT AND EQUIPMENT	\$ 73,473	\$ 1,382,067	\$ 268,992	\$ 7,105,924	\$ 8,830,456
Other Assets:					
Bond Discount	\$ 0	\$ 8,550	\$ 0	\$ 0	\$ 8,550
Investments	<u>0</u>	<u>133,994</u>	<u>0</u>	<u>0</u>	<u>133,994</u>
TOTAL OTHER ASSETS	\$ 0	\$ 142,544	\$ 0	\$ 0	\$ 142,544
TOTAL ASSETS	\$ 97,046	\$ 1,973,445	\$ 375,079	\$ 7,527,828	\$ 9,973,398
<b>LIABILITIES</b>					
Current Liabilities:					
Accounts payable	\$ 13,469	\$ 41,437	\$ 51,758	\$ 1,182	\$ 107,846
Salaries and wages payable	435	18,837	694	939	20,905
Sales tax payable	0	4,058	0	0	4,058
Interest payable	0	13,291	0	12,566	25,857
Customer deposits	0	25,858	0	0	25,858
Current portion of long term debt	<u>0</u>	<u>30,000</u>	<u>0</u>	<u>49,000</u>	<u>79,000</u>
TOTAL CURRENT LIABILITIES	\$ 13,904	\$ 133,481	\$ 52,452	\$ 63,687	\$ 263,524
Long Term Liabilities	\$ 0	\$ 890,000	\$ 0	\$ 3,302,000	\$ 4,192,000
TOTAL LIABILITIES	\$ 13,904	\$ 1,023,481	\$ 52,452	\$ 3,365,687	\$ 4,455,524
<b>NET ASSETS</b>					
Invested in capital assets - net of related debt	\$ 73,473	\$ 462,067	\$ 268,992	\$ 3,754,924	\$ 4,559,456
Restricted for bond discount	0	8,550	0	0	8,550
Restricted for debt service	0	116,071	0	176,593	292,664
Restricted for future construction and improvements	0	0	0	90,110	90,110
Unrestricted	<u>9,669</u>	<u>363,276</u>	<u>53,635</u>	<u>140,514</u>	<u>567,094</u>
TOTAL NET ASSETS	\$ 83,142	\$ 949,964	\$ 322,627	\$ 4,162,141	\$ 5,517,874

Notes to Financial Statements are an integral part of this statement.

CITY OF CRYSTAL FALLS  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
BUSINESS TYPE FUNDS  
Year ended September 30, 2006

	<u>TELEVISION UTILITY</u>	<u>ELECTRIC UTILITY</u>	<u>WATER UTILITY</u>	<u>SEWER UTILITY</u>	<u>TOTAL</u>
<b>OPERATING REVENUES</b>					
User charges	\$ 224,659	\$ 1,587,728	\$ 323,435	\$ 348,988	\$ 2,484,810
Other	<u>681</u>	<u>31,318</u>	<u>0</u>	<u>0</u>	<u>31,999</u>
<b>TOTAL OPERATING REVENUES</b>	<b>\$ 225,340</b>	<b>\$ 1,619,046</b>	<b>\$ 323,435</b>	<b>\$ 348,988</b>	<b>\$ 2,516,809</b>
<b>OPERATING EXPENSES</b>					
General and administrative					
Salaries and wages	\$ 415	\$ 41,564	\$ 19,400	\$ 13,546	\$ 74,925
Employee benefits	31	3,078	1,430	7,097	11,636
Contracted services	0	1,256	785	785	2,826
Transmission, distribution and maintenance					
Salaries and wages	25,709	163,420	36,532	37,005	262,666
Employee benefits	13,358	102,380	27,937	19,426	163,101
Supplies	1,030	38,528	31,603	4,748	75,909
Contracted services	154,980	706,487	2,182	13,797	877,446
Other	4,149	26,606	8,393	8,872	48,020
Power plant					
Salaries and wages	0	62,170	0	0	62,170
Employee benefits	0	40,450	0	0	40,450
Supplies	0	4,762	0	0	4,762
Contracted services	0	3,598	0	0	3,598
Other	0	3,152	0	0	3,152
Depreciation	9,264	63,790	5,252	176,120	254,426
Interest and fees	<u>0</u>	<u>40,753</u>	<u>0</u>	<u>152,734</u>	<u>193,487</u>
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 208,936</b>	<b>\$ 1,301,994</b>	<b>\$ 133,514</b>	<b>\$ 434,130</b>	<b>\$ 2,078,574</b>
<b>OPERATING INCOME (LOSS)</b>	<b>\$ 16,404</b>	<b>\$ 317,052</b>	<b>\$ 189,921</b>	<b>\$ (85,142)</b>	<b>\$ 438,235</b>
<b>NON-OPERATING INCOME (EXPENSE)</b>					
Interest	\$ 0	\$ 23,401	\$ 2,860	\$ 8,354	\$ 34,615
<b>NON-OPERATING TRANSFERS</b>					
To other funds	\$ <u>(50,000)</u>	\$ <u>(430,000)</u>	\$ <u>(100,000)</u>	\$ <u>0</u>	\$ <u>(580,000)</u>
<b>NET INCOME (LOSS)</b>	<b>\$ (33,596)</b>	<b>\$ (89,547)</b>	<b>\$ 92,781</b>	<b>\$ (76,788)</b>	<b>\$ (107,150)</b>
Net assets - beginning	<u>116,738</u>	<u>1,039,511</u>	<u>229,846</u>	<u>4,238,929</u>	<u>5,625,024</u>
<b>NET ASSETS - ENDING</b>	<b>\$ <u>83,142</u></b>	<b>\$ <u>949,964</u></b>	<b>\$ <u>322,627</u></b>	<b>\$ <u>4,162,141</u></b>	<b>\$ <u>5,517,874</u></b>

Notes to Financial Statements are an integral part of this statement.

**CITY OF CRYSTAL FALLS**  
**STATEMENT OF CASH FLOWS**  
**BUSINESS TYPE FUNDS**  
Year ended September 30, 2006

	TELEVISION UTILITY	ELECTRIC UTILITY	WATER UTILITY	SEWER UTILITY	TOTAL
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from customers	\$ 224,659	\$ 1,606,595	\$ 324,066	\$ 349,575	\$ 2,504,895
Payments to suppliers	(158,056)	(781,492)	994	(29,601)	(968,155)
Payments to or on behalf of employees	<u>(40,103)</u>	<u>(411,033)</u>	<u>(85,664)</u>	<u>(76,944)</u>	<u>(613,744)</u>
<b>TOTAL CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>\$ 26,500</b>	<b>\$ 414,070</b>	<b>\$ 239,396</b>	<b>\$ 243,030</b>	<b>\$ 922,996</b>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>					
Transfer from (to) other funds	(50,000)	(430,000)	(100,000)	0	(580,000)
Loans from (repaid to) other funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>TOTAL CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>	<b>\$ (50,000)</b>	<b>\$ (430,000)</b>	<b>\$ (100,000)</b>	<b>\$ 0</b>	<b>\$ (580,000)</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Payments on capital debt	\$ 0	\$ (70,628)	\$ 0	\$ (199,911)	\$ (270,539)
Purchases of capital assets	(2,405)	(41,790)	(185,766)	0	(229,961)
Funding of restricted accounts	<u>0</u>	<u>(49)</u>	<u>0</u>	<u>(31,797)</u>	<u>(31,846)</u>
<b>TOTAL CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>\$ (2,405)</b>	<b>\$ (112,467)</b>	<b>\$ (185,766)</b>	<b>\$ (231,708)</b>	<b>\$ (532,346)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Interest earned	\$ 0	\$ 23,401	\$ 2,861	\$ 8,354	\$ 34,616
Investments purchased	<u>0</u>	<u>(18,651)</u>	<u>0</u>	<u>0</u>	<u>(18,651)</u>
<b>TOTAL CASH FLOWS FROM INVESTING ACTIVITIES</b>	<b>\$ 0</b>	<b>\$ 4,750</b>	<b>\$ 2,861</b>	<b>\$ 8,354</b>	<b>\$ 15,965</b>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>\$ (25,905)</b>	<b>\$ (123,647)</b>	<b>\$ (43,509)</b>	<b>\$ 19,676</b>	<b>\$ (173,385)</b>
Cash and equivalents - beginning	<u>49,478</u>	<u>197,255</u>	<u>149,596</u>	<u>121,273</u>	<u>517,602</u>
<b>CASH AND EQUIVALENTS - ENDING</b>	<b>\$ <u>23,573</u></b>	<b>\$ <u>73,608</u></b>	<b>\$ <u>106,087</u></b>	<b>\$ <u>140,949</u></b>	<b>\$ <u>344,217</u></b>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>					
Operating income (loss)	\$ 16,404	\$ 317,052	\$ 189,921	\$ (85,142)	\$ 438,235
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities					
Depreciation	9,264	63,790	5,252	176,120	254,426
Capital interest and fees	0	40,753	0	152,734	193,487
Change in Assets and Liabilities					
Receivables - net	0	(12,664)	631	14,839	2,806
Due from other governmental units	0	0	0	(14,252)	(14,252)
Accounts payable	1,422	2,897	43,957	(1,399)	46,877
Accrued salaries and wages	(590)	2,029	(365)	130	1,204
Accrued sales tax	<u>0</u>	<u>213</u>	<u>0</u>	<u>0</u>	<u>213</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ <u>26,500</u></b>	<b>\$ <u>414,070</u></b>	<b>\$ <u>239,396</u></b>	<b>\$ <u>243,030</u></b>	<b>\$ <u>922,996</u></b>

Notes to Financial Statements are an integral part of this statement.

CITY OF CRYSTAL FALLS  
STATEMENT OF NET ASSETS  
FIDUCIARY FUNDS  
September 30, 2006

	<u>PERPETUAL CEMETERY CARE</u>	<u>TAX COLLECTIONS</u>	<u>TOTAL</u>
<b>ASSETS</b>			
Cash and equivalents	\$ 21,540	\$ 2,442	\$ 23,982
Accounts receivable	<u>185</u>	<u>0</u>	<u>185</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>21,725</u></b>	<b>\$ <u>2,442</u></b>	<b>\$ <u>24,167</u></b>
<b>LIABILITIES AND FUND EQUITY</b>			
<b>Liabilities</b>			
Due to other funds	\$ 0	\$ 0	\$ 0
Due to other governmental units	<u>0</u>	<u>2,442</u>	<u>2,442</u>
<b>TOTAL LIABILITIES</b>	<b>\$ 0</b>	<b>\$ 2,442</b>	<b>\$ 2,442</b>
<b>Fund Equity</b>			
Fund balance - reserved	\$ 20,419	\$ 0	\$ 20,419
Fund balance - unreserved	<u>1,306</u>	<u>0</u>	<u>1,306</u>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ <u>21,725</u></b>	<b>\$ <u>2,442</u></b>	<b>\$ <u>24,167</u></b>

Notes to Financial Statements are an integral part of this statement.

CITY OF CRYSTAL FALLS  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
Year ended September 30, 2006

	<u>Perpetual Care Fund</u>
REVENUES	
Perpetual care fees	\$ 2,958
Interest income	<u>452</u>
TOTAL REVENUES	\$ 3,410
TRANSFERS - (to) other funds	\$ <u>0</u>
EXCESS OF REVENUES OVER (UNDER) TRANSFERS	\$ 3,410
Fund balance - beginning	<u>18,315</u>
FUND BALANCE - ENDING	\$ <u><u>21,725</u></u>

Notes to Financial Statements are an integral part of this statement.

CITY OF CRYSTAL FALLS  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Crystal Falls (City) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City:

**Reporting Entity**

The City is governed by an elected five member council (Council). The accompanying financial statements represent the entire government as the City does not have any component units that are required to be presented, either discretely or blended.

**Government-Wide and Fund Financial Statements**

The government-wide statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

CITY OF CRYSTAL FALLS  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

**Taxes Receivable—Current Property Taxes**

Property taxes attach as an enforceable lien on property as of January 1. Taxes levied on December 1 are payable in one installment by the last day of February of the ensuing year without penalty. The City bills and collects its own property taxes and also taxes for the Forest Park School District, Dickinson-Iron Intermediate School District, State of Michigan, Iron County and the Crystal Falls Community District Library. Collections and remittances of county and library taxes are accounted for in the Tax Collection Fund. City real property taxes are recognized when levied and personal property taxes are recognized when received.

The City is permitted to assess 20 mills for general governmental services according to its charter. The City actually assessed 17.50 mills generating net tax collections of \$330,602 that is recorded in the general fund and \$1,475 that is recorded in its tax incremental financing fund.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Street Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on Major Streets.

The Electric Reserve and Contingency Fund is used to account for financial resources to be used for the acquisition and construction of major capital facilities in the Electric Department with a cost of not less than \$25,000.00. The City Charter requires a transfer of ten percent of the net income before transfers of the Electric Fund be made annually to the Fund but not less than \$10,000 up to maximum accumulation of \$250,000.00 unless a higher maximum accumulation is approved by the City Council.

**CITY OF CRYSTAL FALLS**  
**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2006

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)**

The government reports the following major proprietary funds:

The Television Fund accounts for the activities of the community television system.

The Electric Fund accounts for the activities of the power generation and distribution system.

The Water Fund accounts for the activities of the water distribution system.

The Sewer Fund accounts for the activities of the sewer collection system.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected to also follow private-sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's utility function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the City's proprietary funds relate to charges to customers for sales and services. The utility funds also recognizes the portion of the fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, depreciation on capital assets and debt costs associated with financing upgrades to the utility systems. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

**Assets, Liabilities, and Net Assets or Equity**

Bank Deposits and Investments— Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of six months or less when acquired. Investments are stated at fair value.



CITY OF CRYSTAL FALLS  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Assets, Liabilities, and Net Assets or Equity (Continued)**

Receivables and Payables— In general, outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “due to/from other funds.”

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each December 1<sup>st</sup> on the taxable valuation of property as of the preceding December 31<sup>st</sup>. Taxes are considered delinquent on March 1<sup>st</sup> of the following year, at which time penalties and interest are assessed.

Inventories and Prepaid Items— Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets— The revenue bonds of the enterprise funds require amounts to be set aside for construction, debt service principal and interest, operations and maintenance, and a bond reserve. These amounts have been classified as restricted assets. In addition, the deposits placed on account by utility customers are also classified as restricted.

Capital Assets— Capital assets, which include property, plant and equipment are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The City has elected not to report its infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) which is in compliance with Governmental Accounting Standards Board Statement Number 34 as the City is a “tier three” entity. All future infrastructure asset additions will be recorded and reported in the government wide financial statements.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

CITY OF CRYSTAL FALLS  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Assets, Liabilities, and Net Assets or Equity (Continued)**

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings	40 to 60 years
Building Improvements	15 to 30 years
Television/Internet	5 to 25 years
Electric System	5 to 40 years
Water and Sewer Lines	40 to 60 years
Roads	10 to 30 years
Other Infrastructure	10 to 40 years
Vehicles	3 to 5 years
Office Equipment	5 to 7 years
Computer Equipment	3 to 7 years

Compensated Absences (Vacation, Compensatory and Sick Leave)– It is the government’s policy to permit employees to accumulate earned but unused vacation, compensatory and sick pay benefits. The City does not have a determinable liability for unpaid accumulated sick leave since the government has a policy not to pay any portion of the accumulated benefits to employees upon separation from service. All vacation and compensatory leave pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year-end and for amounts used within 60 days following the year end.

Long-Term Obligations– In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity– In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

CITY OF CRYSTAL FALLS  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Comparative Data/Reclassifications**

Comparative total data for the prior year have been presented only for individual enterprise funds in the fund financial statements in order to provide an understanding of the changes in the financial position and operations of these funds. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

NOTE B - EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

P.A. 621 of 1978, section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the City's actual expenditures, budgeted expenditures and related variances for the budgetary funds have been shown on an activity basis. The approved budgets of the City for these budgetary funds were adopted to the activity level.

The City Council adopted an amendment to its budget, changing budgeted amounts to the actual expenditure balance if the initially adopted amounts lagged the expenditures. As a result, no expenditures exceeded the budgetary amounts.

NOTE C - ACCUMULATED UNRESERVED/UNDESIGNATED FUND DEFICITS

The City's general fund has an accumulated unreserved/undesignated deficit of \$24,266 as of September 30, 2006. All other funds do not have a deficit as of September 30, 2006

NOTE D - CASH AND EQUIVALENTS

At year end, the carrying amount of the City's deposits (checking, savings, money market and short term certificates of deposit) was \$1,286,235. The City's deposits are in accordance with statutory authority. The bank balance is classified as to credit risk as follows:

Amount insured by the F.D.I.C.	\$ 300,000
Amount uninsured and uncollateralized	<u>986,235</u>
 TOTAL CASH	 \$ 1,286,235 =====

CITY OF CRYSTAL FALLS  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2006

NOTE E - INVESTMENTS

The City adopted an investment policy pursuant to state law. The investments were held in a membership in the Upper Peninsula Power Producers Agency, LLC (UPPPA). The City has invested \$142,544 as of the September 30, 2006, and expects to receive an ongoing return of 12% per annum.

NOTE F - LONG TERM DEBT

1998 SEWER UTILITY SYSTEM REVENUE BOND

<u>Date</u>	<u>Payment Due</u>	<u>Principal</u>	<u>Interest</u>
March 1, 2007	\$ 75,398	\$ 0	\$ 75,398
September 1, 2007	124,398	49,000	75,398
March 1, 2008	74,295	0	74,295
September 1, 2008	125,295	51,000	74,295
March 1, 2009	73,148	0	73,148
September 1, 2009	126,148	53,000	73,148
March 1, 2010	71,955	0	71,955
September 1, 2010	127,955	56,000	71,955
March 1, 2011	70,695	0	70,695
September 1, 2011	128,695	58,000	70,695
2012 - 2038	<u>5,387,820</u>	<u>3,084,000</u>	<u>2,303,820</u>
	\$ 6,385,800	\$3,351,000	\$ 3,034,800
	=====	=====	=====

A Sewer System Revenue Bond was issued for \$3,673,000 dated September 23, 1998. The bond requires annual principal payments as scheduled above and bears interest at the rate of 4.5% per annum. Interest is payable semiannually on March 1 and September 1 of each year.

The Bond is subject to redemption prior to maturity at the option of the City, either in whole or in part; on any interest payment date, at par plus accrued interest.

1999 ECONOMIC DEVELOPMENT FINANCING AGREEMENT

On January 1, 1999, the City received Community Development Block Grant money in the form of a partially forgivable loan in the amount of \$232,591. These funds were disbursed as infrastructure improvements were completed and invoiced. The City pledged \$105,000 of its Certificates of Deposit and its State Shared Revenues as collateral on this loan.

CITY OF CRYSTAL FALLS  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2006

NOTE F - LONG TERM DEBT (CONTINUED)

1999 ECONOMIC DEVELOPMENT FINANCING AGREEMENT (CONTINUED)

During the year, the City requested and received the maximum offset for new jobs created per the loan terms. This amounted to forgiveness of all of the accrued interest and ninety percent of the principal. The repayment of the loan began in January, 2005 with annual principal payments of \$2,584.34 over a ten year period of time with no interest charged.

2004 ELECTRIC UTILITY SYSTEM REVENUE BOND

<u>Date</u>	<u>Payment Due</u>	<u>Principal</u>	<u>Interest</u>
November 1, 2006	\$ 49,938	\$ 30,000	\$ 19,938
May 1, 2007	19,414	0	19,414
November 1, 2007	54,414	35,000	19,414
May 1, 2008	18,758	0	18,758
November 1, 2008	53,757	35,000	18,757
May 1, 2009	18,101	0	18,101
November 1, 2009	53,101	35,000	18,101
May 1, 2010	17,401	0	17,401
November 1, 2010	57,401	40,000	17,401
May 1, 2011	16,601	0	16,601
2011 - 2024	<u>1,067,829</u>	<u>745,000</u>	<u>248,826</u>
	\$ 1,352,714	\$ 920,000	\$ 432,714
	=====	=====	=====

An Electric System Revenue Bond was issued for \$950,000 dated September 1, 2004 at a 1% discount. The bond requires annual principal payments as scheduled above and bears interest at rates varying from of 3.5% to 5.0% per annum. Interest is payable semiannually on May 1 and November 1 of each year.

The Bond is subject to redemption prior to maturity at the option of the City, either in whole or in part; on any interest payment date, at par plus accrued interest.

CITY OF CRYSTAL FALLS  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2006

NOTE G - ACCUMULATED VACATION AND SICK PAY

Sick days can accumulate to a maximum of 100 days, and are forfeited upon termination. As of September 30, 2006, the accumulated sick leave liability approximates \$145,234. Annual leave can accumulate to a maximum of 24 days and may exceed this amount with City Council approval. Upon termination, a cash payout of the accumulated days at the employee's present hourly rate occurs. As of September 30, 2006, the estimated liability for unused vacation leave is \$ 35,685.

NOTE H - INTERFUND TRANSFERS

The following interfund transfers were recorded during the year and are reflected in the financial statements.

Transfer from	Transfer to	Amount
Electric	General	\$ 430,000
Water	General	100,000
Television	General	50,000
Industrial Park`	General	55,000
Major Streets	Local Streets	46,800

NOTE I - INTERFUND RECEIVABLES/PAYABLES

As of September 30, 2006, the City's general fund owed the Major Street Fund \$150,000.

NOTE J - PENSION PLAN

The City contributes to the Michigan Municipal Retirement System (MERS), a multiple-employer public retirement system that acts as a common investment and administrative agent for municipalities in the State of Michigan.

All full-time City employees are eligible to participate in the MERS. Benefits vest after ten years of service. Normal retirement provisions of the MERS apply to participants who retire at or after age 60 with at least 10 years of credited service.

The annual retirement benefits of covered employees vary depending on the valuation division. The annual retirement benefits range are 2.0% of final average compensation for their last five years of employment multiplied by their years of credited service.

Actuarial Accrued Liability - The actuarial accrued liability was determined as part of an actuarial valuation of the plan as of December 31, 2005. Significant actuarial assumptions used in determining the actuarial accrued liability include (a) a rate of return on the investment of present

CITY OF CRYSTAL FALLS  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2006

NOTE J - PENSION PLAN

and future assets of 8.0%, (b) projected salary increases of 4.5% compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0.0% to 8.40% per year, depending on age, attributable to seniority/merit, and (d) the assumption that benefits will increase 2.5% annually for beneficiaries.

GASB 25 INFORMATION (as of 12/31/05)

Actuarial Accrued Liability:

Retiree and beneficiaries currently receiving benefits	\$ 2,989,322
Terminated employees not yet receiving benefits	35,902
Non-vested terminated employees	0
Current employees:	
Accumulated employee contributions including allocated investment income	36,514
Employer financed	<u>3,005,224</u>
Total Actuarial Liability	\$ 6,066,962
Net assets available for benefits, at actuarial value (Market Value is \$5,215,690)	<u>5,512,922</u>
Unfunded (overfunded) actuarial accrued liability	\$ 554,040

GASB 27 INFORMATION (as of 12/31/04)

Fiscal year beginning	July 1, 2007
Annual required contributions (ARC)	\$ 104,184
Amortization factor used	0.053632

Contributions Required and Contributions Made - MERS funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and amortization payment for the fiscal year ended December 31, 2005 were determined using the entry age normal actuarial funding method. Unfunded actuarial accrued liabilities, if any, were amortized as a level percent of payroll over a period of 30 years.

NOTE K - CONTINGENCIES/COMMITMENT

After the close of the fiscal year, the City of Crystal Falls took ownership of the Crystal Manor Building along with a commitment from Iron County to pay \$50,000 to the City and an additional \$25,000 in the future if the City is successful in finding a developer for the property. The property is currently vacant and if the building must be razed at a future date, the City will be responsible for the costs associated with the project. Such cost, if any, can not presently be determined.

CITY OF CRYSTAL FALLS  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2006

NOTE L - RISK MANAGEMENT

The City of Crystal Falls is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City of Crystal Falls maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the City. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.



REQUIRED  
SUPPLEMENTAL  
INFORMATION

CITY OF CRYSTAL FALLS  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
Year ended September 30, 2006

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE WITH AMENDED BUDGET
Beginning Fund Balance	\$ 166,073	\$ 166,073	\$ 166,073	\$ 0
Resources (Inflows)				
Property taxes	319,200	319,200	332,212	13,012
Federal grants	0	0	16,000	16,000
State shared revenues and grants	262,000	262,000	224,175	(37,825)
Fines and forfeitures	1,000	1,000	907	(93)
Charges for services	157,900	157,900	158,850	950
Interest and rentals	36,500	36,500	117,494	80,994
Sale of property/timber	50,000	50,000	25,188	(24,812)
Other	23,100	23,100	23,184	84
Transfer from other funds	<u>716,480</u>	<u>716,480</u>	<u>635,000</u>	<u>(81,480)</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ <u>1,732,253</u>	\$ <u>1,732,253</u>	\$ <u>1,699,083</u>	\$ <u>(33,170)</u>
Charges to Appropriations (Outflows)				
Legislative				
City council	\$ 8,300	\$ 8,300	\$ 7,856	\$ 444
Mayor	2,600	3,005	3,005	0
General Government				
City manager	22,200	22,200	13,458	8,742
Elections	100	896	896	0
Administration	517,300	340,700	337,661	3,039
Clerk	13,000	13,000	12,386	614
Assessor	8,000	13,018	13,018	0
Audit/attorney	12,500	13,644	13,644	0
Board of review	3,900	3,900	3,428	472
Treasurer	7,500	8,083	8,083	0
Buildings and other property	81,400	81,400	75,517	5,883
Cemetery	60,500	61,347	61,347	0
Public Safety				
Police	255,800	268,590	268,590	0
Fire	110,000	151,808	151,808	0
Public Works				
Maintenance	282,000	232,000	217,027	14,973
Street lighting	35,000	40,841	40,841	0
Parks and Recreation				
Parks	26,030	50,092	50,092	0
Softball field	0	371	371	0
Golf course	86,400	86,674	86,674	0
Ski hill	9,550	10,978	10,978	0
Community betterment				
Crystal Manor	0	0	0	0
Other	27,600	40,483	40,483	0
Capital outlay	<u>0</u>	<u>258,648</u>	<u>258,648</u>	<u>0</u>
TOTAL CHARGES TO APPROPRIATIONS	\$ <u>1,569,680</u>	\$ <u>1,709,978</u>	\$ <u>1,675,811</u>	\$ <u>34,167</u>
BUDGETARY FUND BALANCE--ENDING	\$ <u><u>162,573</u></u>	\$ <u><u>22,275</u></u>	\$ <u><u>23,272</u></u>	\$ <u><u>997</u></u>

CITY OF CRYSTAL FALLS  
BUDGETARY COMPARISON SCHEDULE  
MAJOR STREET FUND  
Year ended September 30, 2006

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE WITH AMENDED BUDGET
Beginning Fund Balance	\$ 115,535	\$ 115,535	\$ 115,535	\$ 0
Resources (Inflows)				
State shared revenues and grants	156,000	179,050	255,354	76,304
Interest	<u>0</u>	<u>0</u>	<u>722</u>	<u>722</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ 271,535	\$ 294,585	\$ 371,611	\$ 77,026
Charges to Appropriations (Outflows)				
Construction	\$ 0	\$ 0	\$ 0	\$ 0
Route maintenance	67,840	3,910	3,902	8
Drainage, sweeping and flushing	2,380	2,000	1,956	44
Trees and shrubs	3,300	5,510	5,493	17
Roadside betterment	220	300	296	4
Signs and signals	110	0	0	0
Winter maintenance	22,000	60,900	60,757	143
Administration and engineering	4,900	6,800	6,646	154
Trunk line maintenance:				0
Route maintenance	4,220	3,925	3,885	40
Drainage, sweeping and flushing	1,870	2,030	1,996	34
Trees and shrubs	880	0	0	0
Roadside betterment	560	1,050	1,032	18
Signs and signals	220	0	0	0
Winter maintenance	16,300	45,825	45,696	129
Administration and engineering	0	0	0	0
Transfer to other funds	<u>31,200</u>	<u>46,800</u>	<u>46,800</u>	<u>0</u>
TOTAL CHARGES TO APPROPRIATIONS	\$ <u>156,000</u>	\$ <u>179,050</u>	\$ <u>178,459</u>	\$ <u>591</u>
BUDGETARY FUND BALANCE--ENDING	\$ <u><u>115,535</u></u>	\$ <u><u>115,535</u></u>	\$ <u><u>193,152</u></u>	\$ <u><u>77,617</u></u>

CITY OF CRYSTAL FALLS  
BUDGETARY COMPARISON SCHEDULE  
ELECTRIC RESERVE AND CONTINGENCY FUND  
Year ended September 30, 2006

	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH AMENDED BUDGET</u>
Beginning Fund Balance	\$ 250,000	\$ 250,000	\$ 250,000	\$ 0
Resources (Inflows)				
Interest earned	0	0	6,755	6,755
Transfers from other funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ 250,000	\$ 250,000	\$ 256,755	\$ 6,755
Charges to Appropriations (Outflows)				
Capital outlay	\$ 0	\$ 0	\$ 0	\$ 0
Transfers to other funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL CHARGES TO APPROPRIATIONS	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>
BUDGETARY FUND BALANCE--ENDING	\$ <u><u>250,000</u></u>	\$ <u><u>250,000</u></u>	\$ <u><u>256,755</u></u>	\$ <u><u>6,755</u></u>

CITY OF CRYSTAL FALLS  
MERS PENSION FUNDING AND STATISTICS  
SEPTEMBER 30, 2006

SCHEDULE OF FUNDING PROGRESS

<u>ACTUARIAL VALUATION DATE</u>	<u>ACTUARIAL VALUE OF ASSETS</u>	<u>ACTUARIAL ACCRUED LIABILITY</u>	<u>UNFUNDED AAL (UAAL)</u>	<u>FUNDED RATIO</u>	<u>COVERED PAYROLL</u>	<u>UAAL AS A PERCENTAGE OF COVERED PAYROLL</u>
31-Dec-03	5,146,395	5,235,508	89,113	98%	1,090,169	8%
31-Dec-04	5,343,291	5,812,422	469,131	92%	1,014,620	46%
31-Dec-05	5,512,922	6,066,962	554,040	91%	948,425	58%

SCHEDULE OF EMPLOYER CONTRIBUTIONS:

<u>YEAR ENDED</u>	<u>ANNUAL REQUIRED CONTRIBUTION</u>	<u>PERCENTAGE CONTRIBUTED</u>
31-Dec-03	27,716	100%
31-Dec-04	76,899	100%
31-Dec-05	81,543	100%

THE INFORMATION PRESENTED ABOVE WAS DETERMINED AS PART OF THE ACTUARIAL VALUATION AT THE DATES INDICATED. ADDITIONAL INFORMATION AS OF THE LATEST ACTUARIAL VALUATION IS AS FOLLOWS:

ACTUARIAL COST METHOD	ENTRY AGE NORMAL
AMORTIZATION METHOD	LEVEL PERCENTAGE OF PAYROLL
AMORTIZATION PERIOD	30 YEARS, OPEN
ASSET VALUATION METHOD	ADJUSTED 5 YEAR SMOOTHED MARKET
ACTUARIAL ASSUMPTIONS	
INVESTMENT RATE OF RETURN	8.00%
PROJECTED SALARY INCREASES*	4.5% - 8.66%
*INCLUDES MERIT/LONGEVITY INCREASES	0% - 4.16%
INFLATION	3% - 4%
OTHER	1994 GROUP MORTALITY TABLE

ADDITIONAL

INFORMATION

CITY OF CRYSTAL FALLS  
NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
September 30, 2006

	<u>LOCAL STREET</u>	<u>INDUSTRIAL PARK</u>	<u>TAX INCREMENTAL FINANCING</u>	<u>TOTAL</u>
<b>ASSETS</b>				
Cash and equivalents	\$ 25,589	\$ 52,196	\$ 1,251	\$ 79,036
Accounts receivable	0	0	0	0
Due from other funds	0	0	0	0
Due from other governmental units	8,668	0	0	8,668
Other assets	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>34,257</u></b>	<b>\$ <u>52,196</u></b>	<b>\$ <u>1,251</u></b>	<b>\$ <u>87,704</u></b>
<b>LIABILITIES AND FUND EQUITY</b>				
<b>LIABILITIES</b>				
Accounts payable	\$ 403	\$ 0	\$ 0	\$ 403
Salaries and wages payable	100	0	0	100
Accrued taxes and withholdings	0	0	0	0
Accrued interest	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>TOTAL LIABILITIES</b>	<b>\$ 503</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 503</b>
<b>FUND EQUITY</b>				
Fund balance:				
Unreserved-undesignated	\$ <u>33,754</u>	\$ <u>52,196</u>	\$ <u>1,251</u>	\$ <u>87,201</u>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ <u>34,257</u></b>	<b>\$ <u>52,196</u></b>	<b>\$ <u>1,251</u></b>	<b>\$ <u>87,704</u></b>

CITY OF CRYSTAL FALLS  
NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE  
Year ended September 30, 2006

	LOCAL STREET	INDUSTRIAL PARK	TAX INCREMENTAL FINANCING	TOTAL
<b>REVENUES</b>				
Property taxes	\$ 0	\$ 0	\$ 1,475	\$ 1,475
State shared revenues	65,267	0	0	65,267
Interest	356	3,158	0	3,514
<b>TOTAL REVENUES</b>	<b>\$ 65,623</b>	<b>\$ 3,158</b>	<b>\$ 1,475</b>	<b>\$ 70,256</b>
<b>EXPENDITURES</b>				
Construction	\$ 0	\$ 0	\$ 0	\$ 0
Maintenance	47,485	0	0	47,485
Drainage, sweeping and flushing	11,462	0	0	11,462
Trees and shrubs	8,534	0	0	8,534
Roadside betterment	2,106	0	0	2,106
Winter maintenance	39,148	0	0	39,148
Administration and engineering	5,159	0	224	5,383
Debt service	0	2,584	0	2,584
Capital outlay	0	0	0	0
<b>TOTAL EXPENDITURES</b>	<b>\$ 113,894</b>	<b>\$ 2,584</b>	<b>\$ 224</b>	<b>\$ 116,702</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>\$ (48,271)</b>	<b>\$ 574</b>	<b>\$ 1,251</b>	<b>\$ (46,446)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfer from other funds	\$ 46,800	\$ 0	\$ 0	\$ 46,800
Transfer to other funds	0	(55,000)	0	(55,000)
<b>EXCESS OF REVENUES AND OTHER FINANCING SOURCES (USES) OVER (UNDER) EXPENDITURES</b>	<b>\$ (1,471)</b>	<b>\$ (54,426)</b>	<b>\$ 1,251</b>	<b>\$ (54,646)</b>
Fund balance - beginning	35,225	106,622	0	141,847
<b>FUND BALANCE - ENDING</b>	<b>\$ 33,754</b>	<b>\$ 52,196</b>	<b>\$ 1,251</b>	<b>\$ 87,201</b>



CITY OF CRYSTAL FALLS  
SEWER UTILITY FUND  
BALANCE SHEET  
September 30, 2006 and 2005

ASSETS	<u>2006</u>	<u>2005</u>
Current Assets:		
Cash and equivalents	\$ 140,949	\$ 121,273
Accounts receivable	0	14,839
Due from other governmental units	<u>14,252</u>	<u>0</u>
TOTAL CURRENT ASSETS	\$ 155,201	\$ 136,112
Restricted Assets:		
Bond interest and redemption	\$ 176,593	\$ 154,147
Repair and replacement	<u>90,110</u>	<u>80,759</u>
TOTAL RESTRICTED ASSETS	\$ 266,703	\$ 234,906
Property, Plant and Equipment:		
Sewage plant, lines and vehicles	\$ 8,588,882	\$ 8,588,882
Less accumulated depreciation	<u>(1,482,958)</u>	<u>(1,306,837)</u>
TOTAL PROPERTY, PLANT AND EQUIPMENT	\$ 7,105,924	\$ 7,282,045
TOTAL ASSETS	<u>\$ 7,527,828</u>	<u>\$ 7,653,063</u>
LIABILITIES AND FUND EQUITY		
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable	\$ 1,182	\$ 2,581
Salaries and wages payable	940	810
Due to other funds	0	0
Interest payable	12,566	12,743
Current portion of long term debt	<u>49,000</u>	<u>47,000</u>
TOTAL LIABILITIES	\$ 63,688	\$ 63,134
LONG TERM LIABILITIES - Bonds payable	\$ 3,302,000	\$ 3,351,000
FUND EQUITY		
Contributed capital	\$ 3,944,769	\$ 4,029,247
Retained earnings:		
Restricted	266,703	234,906
Unrestricted, undesignated	<u>(49,332)</u>	<u>(25,224)</u>
TOTAL FUND EQUITY	\$ 4,162,140	\$ 4,238,929
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 7,527,828</u>	<u>\$ 7,653,063</u>

CITY OF CRYSTAL FALLS  
SEWER UTILITY FUND  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS  
ACTUAL AND BUDGET  
Years ended September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
OPERATING REVENUES		
User charges	\$ 348,988	\$ 345,249
Other	<u>0</u>	<u>0</u>
TOTAL OPERATING REVENUES	\$ 348,988	\$ 345,249
OPERATING EXPENSES		
General and administrative	\$ 21,428	\$ 22,236
Transmission, distribution and maintenance	83,848	94,997
Depreciation	91,643	91,593
Interest	<u>152,734</u>	<u>154,766</u>
TOTAL OPERATING EXPENSES	\$ <u>349,653</u>	\$ <u>363,592</u>
OPERATING INCOME	\$ (665)	\$ (18,343)
NON-OPERATING INCOME - Interest	\$ <u>8,354</u>	\$ <u>6,271</u>
NET INCOME	\$ 7,689	\$ (12,072)
Retained earnings - Beginning of period	<u>209,682</u>	<u>221,754</u>
RETAINED EARNINGS - END OF PERIOD	<u><u>\$ 217,371</u></u>	<u><u>\$ 209,682</u></u>

CITY OF CRYSTAL FALLS  
STATEMENT OF CASH FLOWS  
SEWER UTILITY FUND  
Year ended September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 349,575	\$ 335,979
Payments to suppliers	(29,601)	(39,890)
Payments to or on behalf of employees	<u>(76,944)</u>	<u>(79,733)</u>
<b>TOTAL CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>\$ 243,030</b>	<b>\$ 216,356</b>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
Transfer (to) other funds	\$ 0	\$ 0
Loans received from (repaid to) other funds	<u>0</u>	<u>0</u>
<b>TOTAL CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>	<b>\$ 0</b>	<b>\$ 0</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchases of capital assets	\$ 0	\$ (1,500)
Payments on capital debt	(199,911)	(199,934)
Funding of restricted accounts	<u>(31,797)</u>	<u>(31,617)</u>
<b>TOTAL CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>\$ (231,708)</b>	<b>\$ (233,051)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest earned	\$ <u>8,354</u>	\$ <u>6,271</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>\$ 19,676</b>	<b>\$ (10,424)</b>
Cash and equivalents - beginning	<u>121,273</u>	<u>131,697</u>
<b>CASH AND EQUIVALENTS - ENDING</b>	<b>\$ <u><u>140,949</u></u></b>	<b>\$ <u><u>121,273</u></u></b>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
Operating income	\$ (665)	\$ (18,343)
Adjustments to Reconcile Operating Income to Net Cash		
Provided (Used) by Operating Activities		
Depreciation	91,643	91,593
Capital interest and fees	152,734	154,766
Change in Assets and Liabilities		
Receivables - net	14,839	(9,270)
Due from other governmental units	(14,252)	0
Accounts payable	(1,399)	(1,438)
Accrued salaries and wages	<u>130</u>	<u>(952)</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ <u><u>243,030</u></u></b>	<b>\$ <u><u>216,356</u></u></b>

CITY OF CRYSTAL FALLS  
SEWER UTILITY FUND  
 SCHEDULE OF OPERATING EXPENSES  
 Year ended September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
General and Administrative:		
Salaries and wages	\$ 13,546	\$ 13,625
Employee benefits	7,097	7,661
Other	<u>785</u>	<u>950</u>
Total General and Administrative	\$ 21,428	\$ 22,236
Transmission, Distribution & Maintenance:		
Salaries and wages	\$ 37,005	\$ 36,720
Employee benefits	19,426	20,775
Supplies and other	<u>27,417</u>	<u>37,502</u>
Total Transmission, Distribution & Maintenance	\$ 83,848	\$ 94,997
Depreciation	91,643	91,593
Interest	<u>152,734</u>	<u>154,766</u>
Total Operating Expenses	\$ <u><u>349,653</u></u>	\$ <u><u>363,592</u></u>

CITY OF CRYSTAL FALLS  
BUDGETARY COMPARISON SCHEDULE  
LOCAL STREET FUND  
Year ended September 30, 2006

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE WITH AMENDED BUDGET
Beginning Fund Balance	\$ 35,225	\$ 35,225	\$ 35,225	\$ 0
Resources (Inflows)				
State shared revenues and grants	50,000	65,200	65,267	67
Interest	0	0	356	356
Transfer from other funds	<u>31,200</u>	<u>46,800</u>	<u>46,800</u>	<u>0</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ 116,425	\$ 147,225	\$ 147,648	\$ 423
Charges to Appropriations (Outflows)				
Construction	\$ 0	\$ 0	\$ 0	\$ 0
Route maintenance	57,150	47,485	47,485	0
Drainage, sweeping and flushing	3,300	11,462	11,462	0
Trees and shrubs	3,300	8,534	8,534	0
Roadside betterment	550	2,106	2,106	0
Winter maintenance	13,200	39,148	39,148	0
Administration and engineering	3,700	5,159	5,159	0
Transfer to other funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL CHARGES TO APPROPRIATIONS	\$ <u>81,200</u>	\$ <u>113,894</u>	\$ <u>113,894</u>	\$ <u>0</u>
BUDGETARY FUND BALANCE--ENDING	\$ <u><u>35,225</u></u>	\$ <u><u>33,331</u></u>	\$ <u><u>33,754</u></u>	\$ <u><u>423</u></u>

		16715
wages		
admin	3,308	1292
maint	4,855	3911
clean & drain	2,676	1985
trees	3,561	2825
roadside betterment	508	367
ice	<u>8,205</u>	6335
	23112.32	16715

CITY OF CRYSTAL FALLS  
BUDGETARY COMPARISON SCHEDULE  
TAX INCREMENTAL FINANCING FUND  
Year ended September 30, 2006

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE WITH AMENDED BUDGET
Beginning Fund Balance	\$ 0	\$ 0	\$ 0	\$ 0
Resources (Inflows)				
Property taxes	0	224	1,475	1,251
Interest	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ 0	\$ 224	\$ 1,475	\$ 1,251
Charges to Appropriations (Outflows)				
Downtown development	\$ 0	\$ 224	\$ 224	\$ 0
Transfers to other funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL CHARGES TO APPROPRIATIONS	\$ <u>0</u>	\$ <u>224</u>	\$ <u>224</u>	\$ <u>0</u>
BUDGETARY FUND BALANCE--ENDING	\$ <u><u>0</u></u>	\$ <u><u>0</u></u>	\$ <u><u>1,251</u></u>	\$ <u><u>1,251</u></u>

CITY OF CRYSTAL FALLS  
BUDGETARY COMPARISON SCHEDULE  
INDUSTRIAL PARK FUND  
Year ended September 30, 2006

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE WITH AMENDED BUDGET
Beginning Fund Balance	\$ 106,622	\$ 106,622	\$ 106,622	\$ 0
Resources (Inflows)				
Interest earned	1,500	1,500	3,158	1,658
Land sales	6,200	6,200	0	(6,200)
Transfers from other funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ 114,322	\$ 114,322	\$ 109,780	\$ (4,542)
Charges to Appropriations (Outflows)				
Site improvements	\$ 7,700	\$ 7,700	\$ 0	\$ 7,700
Debt service	0	2,584	2,584	0
Transfers to other funds	<u>0</u>	<u>55,000</u>	<u>55,000</u>	<u>0</u>
TOTAL CHARGES TO APPROPRIATIONS	\$ <u>7,700</u>	\$ <u>65,284</u>	\$ <u>57,584</u>	\$ <u>7,700</u>
BUDGETARY FUND BALANCE--ENDING	\$ <u><u>106,622</u></u>	\$ <u><u>49,038</u></u>	\$ <u><u>52,196</u></u>	\$ <u><u>3,158</u></u>



# SCOTT R. KENNEY

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INDEPENDENT AUDITOR'S REPORT ON  
COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
IN ACCORDANCE WITH GOVERNMENTAL AUDITING STANDARDS

The Honorable Mayor and Council  
City of Crystal Falls  
Crystal Falls, MI 49920

I have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Crystal Falls, Michigan (City) as of and for the year ended September 30, 2006, which collectively comprise the City of Crystal Falls, Michigan's basic financial statements and have issued my report thereon dated December 21, 2006. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States.

COMPLIANCE

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing my audit, I considered the City's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinions on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be

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detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses. However, I noted other matters involving the internal control over financial reporting that I have reported to the management of the City in a separate letter dated December 21, 2006.

This report is intended solely for the information and use of the audit committee, management, City Council and federal awarding agencies and is not intended to be and should not be used by anyone other than those specified parties.

  
Certified Public Accountant

December 21, 2006

# SCOTT R. KENNEY

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City Council  
City of Crystal Falls  
401 Superior Avenue  
Crystal Falls, MI 49920

In conjunction with the audit of the financial statements of the City of Crystal Falls, Michigan, as of and for the year ended September 30, 2006, I have reviewed the City's accounting policies and procedures and systems of internal control. My audit was conducted primarily to enable me to formulate an opinion on the City's financial statements and accordingly, would not disclose all weaknesses in the system which may exist. My review disclosed certain areas in which I believe more effective internal control or increased efficiency may be achieved. This letter is intended to summarize my findings and present my overall conclusions and recommendations. It has been prepared solely for the information of the City Council and management and should not be presented or quoted to anyone outside of the City because of the possibility of misunderstanding by other persons who may not be aware of the objectives and limitations of internal controls and my study and evaluation thereof. The first recommendation is repeated from the prior year.

1. **OBSERVATION** - Several employees received benefits or reimbursements that were not approved by the City Council and are not part of the Council approved employment policies. This includes but is not limited to the accumulation of compensatory time at the Power Plant.

**RECOMMENDATION** - Since setting employee compensation and employment policies are the responsibility of the City Council, I recommend that these items and any similar future items be individually considered and approved or amended by the City Council.

2. **OBSERVATION** - During the year a piece of equipment was purchased without being placed on competitive bid. Management has explained the unique equipment being purchased and its availability from only one source.

**RECOMMENDATION** - I recommend that, while not required in all instances, equipment acquired above the capital policy threshold be acquired on a competitive bid basis or that the City Council approve not competitively bidding an equipment purchase. Further, the results of the bid or the reason for not bidding an item be included in the minutes of the Council meetings.

3. **OBSERVATION** - Some time has passed since the City developed the time study used to allocate the administrative staff's time to the various departments of the City.

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3. **RECOMMENDATION** - I recommend that the time study be updated to properly allocate costs where time is being spent by the staff. This is especially important considering the forthcoming streetscape and water projects.

4. **OBSERVATION** - The arrangement with the City Attorney was approved by the Council when the Attorney was engaged. The agreement is not clear as to when the Attorney's time is chargeable and when it is not chargeable.

**RECOMMENDATION** - I recommend that the agreement be reviewed and clarified so the City clearly understands its financial obligations under the contract.

5. **OBSERVATION** - During the audit fieldwork, I noted that some time sheets did not have the employees and/or the department supervisors signatures or other approval.

**RECOMMENDATION** - I recommend that all of the time sheets be signed by the employees and approved by the supervisor in writing prior to being processed. This will eliminate any misunderstanding in regards to the hours and benefits to be paid to each employee.

6. **OBSERVATION** - The golf operations have historically been accounted for as part of the general fund operations.

**RECOMMENDATION** - I recommend that the City establish a separate "enterprise" fund to account for the golf operations beginning at October 1, 2006. This will clearly delineate the revenues, costs and reserves of the operations.

I would like to thank the City Council for allowing me to conduct the audit of the financial statements and I would especially like to thank Chuck, Dorothea, Mark and the Department Heads for their assistance during the audit.

  
Certified Public Accountant

December 21, 2006